

## Topic : Implementation of Basel reforms

### Brief description and main aims:

The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability. The full set of the standards agreed by the BCBS is known as the “Basel framework”. The standards set out a system based on three “pillars”:

- 1) minimum capital and liquidity requirements,
- 2) a supervisory review process aimed at ensuring that banks have adequate capital and liquidity to support all the risks in their business but also to encourage banks to develop and use better risk management techniques in monitoring and managing their risks and disclosure requirements that seek to provide market participants with sufficient information to assess a bank's material risks and
- 3) capital adequacy and thus to encourage market discipline by banks.

The original set of standards was agreed in 1998. It was reviewed in 2004. As a reaction to the financial crisis the BCBS review the standards for the second time. The result is known Basel III framework. In December 2017, the Basel III reforms were finalised. Now, they need to be implemented at EU level which requires amending existing legislation.

### Why FIEC is dealing with this topic:

Like the whole European economy the construction sector heavily relies on banks for corporate financing, project financing and loans for real estate activities. In general terms, to meet the increased capital requirements that will be triggered by the reforms, banks will need to adjust their balance sheets either by reducing the size of their assets or by raising additional capital of which the costs could be passed on to the price of their financing. Due to the significance of the construction industry for domestic growth, a deterioration of its financing conditions would go hand-in-hand with adverse socio-economic effects.

More precisely, FIEC regards the implementation of Basel III from three angles mainly: financing of real estate activities, financing of SMEs and project financing.

FIEC argues that there is not a one-size-fits-all approach when it comes to the implementation of the Basel agreement. Being an international agreement, it is build on a compromise that neglects some of the specificities of the financing of the EU economy which is for instance different from the US model. For instance, the EU economy relies to a larger extent on financing by banks than the US economy where the capital markets play a predominant role for corporate financing. According to our estimates, a one-to-one implementation of the Basel III standards would result in the loss of at least 170.000 jobs in construction at European level. Strong European banks and favourable financing conditions are not only a cornerstone for the construction industry but for domestic growth in the EU in general.

### Actions and key dates:

**December 2017** – finalisation of Basel III reforms

**10/2019 - 01/2019** – FIEC participation in public consultation

**Q2/2020** – European Commission's legislative proposal implementing Basel III

**01/2022** – Basel reforms implementation deadline